



DR BEYERS NAUDE LOCAL MUNICIPALITY
(Registration number EC 101)
ANNUAL FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2017

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

General Information

Legal form of entity

EC101 - Local Municipality - The municipality's operations are governed by the Municipal Finance Management Act 56 of 2003, Municipal Structure Act 117 of 1998, Municipal Systems Act 32 of 2000; and various other acts and regulations.

Nature of business and principal activities

Dr Beyers Naude Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. The municipality performs the functions as set out in the Constitution. This in effect means the municipality provide services like electricity and sanitation to the community. Dr Beyers Naude Local Municipality also serves as an agent to Provincial Government in providing Housing to the community.

Jurisdiction

Aberdeen, Graaff-Reinet, Jansenville, Klipplaat, Nieu-Bethesda, Rietbron, Steytleville and Willowmoore

Executive committee

Mayor

Cllr. D.W.S. De Vos

Speaker

Cllr. T.L. Nonnies

Executive committee

Cllr. P.W. Koeberg

Cllr. S.J. Graham

Cllr. N.P. Vanda

Council

Cllr. D. Williams

Cllr. T.L. Nonnies

Cllr. A. Nonnes

Cllr. E.A. Ruiters

Cllr. W.Z. Le Grange

Cllr. A. Mboneni

Cllr.E.A. Carolus

Cllr. H. Booysen

Cllr. B.W. Seekoei

Cllr. W.J. Safers (MPAC chairperson)

Cllr. L.M. Botha

Cllr. K. Hoffman

Cllr. X.N. Galada

Cllr. G.C. Mackelina

Cllr. T.,M. Tshona

Cllr. R.B. Jacobs

Cllr. E.L. Loock

Cllr. P. Bees

Cllr. L.L. Langeveldt

Cllr. A. Arries

Cllr. D.J. Bezuidenhoudt

Cllr. E.V.R. Rossouw

Cllr. J.J. Williams

Grading of local authority

Three (3)

Acting Chief Finance Officer (CFO)

S.E. Mbotya

Accounting Officer

Acting: J.Z.A Vumazonke

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

General Information

Registered office

P O Box 71
Graaff Reinet
6280

Business address

12 - 14 Caledon Street
Graaff Reinet
6280

Bankers

First National Bank

Auditors

Auditor-General of South Africa

Attorneys

Derckson & Partners
Netteltons Attorneys
RWA Labour

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Index

The reports and statements set out below comprise the annual financial statements presented to the Auditor General:

Index	Page
Accounting Officer's Responsibilities and Approval	4
Report of the Auditor General	5
Accounting Officer's Report	6
Statement of Financial Position	7
Statement of Financial Performance	8
Statement of Changes in Net Assets	9
Cash Flow Statement	10
Statement of Comparison of Budget and Actual Amounts	11 - 12
Accounting Policies	13 - 34
Notes to the Annual Financial Statements	35 - 72

Abbreviations

CRR	Capital Replacement Reserve
GRAP	Generally Recognised Accounting Practice
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The accounting officer has reviewed the municipality's cash flow forecast for the period to 30 June 2018 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's internal auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages ____ to ____, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2017 and were signed on its behalf by:

Acting: J.Z.A Vumazonke
Acting Municipal Manager



Report of the Auditor General

To the Provincial Legislature of Dr Beyers Naude Local Municipality

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Officer's Report

The accounting officer submits his report for the period ended 30 June 2017.

1. Review of activities

Main business and operations

The municipality operates in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Refer to note 47 for more information on the going concern at the municipality.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial period.

4. Accounting Officer's interest in contracts

The Accounting Officer has no interests in contracts of the Municipality.

5. Merger

The municipality was established on 7 August 2016 as a result of the redemarcation of local municipalities. Camdeboo Local Municipality, Baviaans Local Municipality and Ikwezi Local Municipality merged to form the Dr Beyers Naude Local Municipality.

The assets acquired and liabilities assumed as a result of the merger are disclosed in the notes to the financial statements.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Statement of Financial Position as at 30 June 2017

	Notes	Period ended 30 June 2017 R
ASSETS		
Current Assets		
Inventories	3	6 421 263
Receivables from exchange transactions	4	11 298 878
Receivables from non-exchange transactions	5	837 067
Consumer debtors	6	19 518 205
Cash and cash equivalents	7	38 271 395
		76 346 808
Non-Current Assets		
Investment property	8	67 783 409
Property, plant and equipment	9	1 107 025 444
Intangible assets	10	252 863
Heritage assets	11	13 452 791
		1 188 514 507
Total Assets		1 264 861 315
LIABILITIES		
Current Liabilities		
Payables from exchange transactions	12	102 705 693
Payables from non-exchange transactions	13	6 449 978
VAT payable	14	590 692
Consumer deposits	15	2 885 033
Unspent conditional grants and receipts	16	35 700 416
Short-term employee benefit obligation	17	1 872 024
Short-term provisions	18	180 000
		150 383 836
Non-Current Liabilities		
Long-term employee benefit obligation	17	44 893 455
Long-term provisions	18	13 903 886
		58 797 341
Total Liabilities		209 181 177
Net Assets		1 055 680 138
Reserves		
Capital replacement reserve		5 000 000
Self insurance reserve		5 508 897
Accumulated surplus		1 045 171 241
Total Net Assets		1 055 680 138

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Statement of Financial Performance

	Notes	Period ended 30 June 2017 R
Revenue		
Revenue from exchange transactions		
Service charges		117 962 297
Rental of facilities and equipment	19	591 870
Income from agency services		4 453 556
Sundry fees and income		690 548
Interest revenue	20	7 555 552
Gain on disposal of assets and liabilities		3 550 381
Total revenue from exchange transactions		134 804 204
Revenue from non-exchange transactions		
Taxation revenue		
Property rates	21	21 625 697
Fines		76 547
Transfer revenue		
Government grants & subsidies	22	168 085 887
Total revenue from non-exchange transactions		189 788 131
Total revenue	23	324 592 335
Expenditure		
Employee related costs	24	(100 825 850)
Remuneration of councillors	25	(7 376 925)
Depreciation and amortisation	26	(65 157 003)
Impairment of assets	27	(32 985 584)
Finance costs	28	(4 914 114)
Lease rentals on operating lease		(418 185)
Repairs and maintenance		(4 505 563)
Bulk purchases	29	(69 018 919)
Contracted services	30	(3 417 077)
Actuarial losses		(4 955 419)
Inventories losses/write-downs		(86 519)
General Expenses	31	(72 429 606)
Total expenditure		(366 090 764)
Deficit for the period		(41 498 429)

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Statement of Changes in Net Assets

	Capital replacement reserve R	Insurance reserve R	Total reserves R	Accumulated surplus R	Total net assets R
Balance at 07 August 2016	-	-	-	-	-
Changes in net assets					
Transferred in from merger	5 000 000	5 529 456	10 529 456	1 086 669 670	1 097 199 126
Net income (losses) recognised directly in net assets	5 000 000	5 529 456	10 529 456	1 086 669 670	1 097 199 126
Surplus for the period	-	-	-	(41 498 429)	(41 498 429)
Total recognised income and expenses for the period	5 000 000	5 529 456	10 529 456	1 045 171 241	1 055 700 697
Insurance claims processed	-	(20 559)	(20 559)	-	(20 559)
Total changes	5 000 000	5 508 897	10 508 897	1 045 171 241	1 055 680 138
Balance at 30 June 2017	5 000 000	5 508 897	10 508 897	1 045 171 241	1 055 680 138

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Cash Flow Statement

	Notes	Period ended 30 June 2017 R
Cash flows from operating activities		
Receipts		
Property rates and grants		173 864 936
Services charges		122 178 609
Interest income		7 555 552
Other receipts		5 735 974
		<u>309 335 071</u>
Payments		
Employee costs		(98 919 887)
Suppliers		(114 816 230)
Finance costs		(1 491 677)
		<u>(215 227 794)</u>
Net cash flows from operating activities	33	<u>94 107 277</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	9	(62 347 060)
Proceeds from sale of property, plant and equipment	9	3 590 400
Purchase of other intangible assets	10	(49 308)
		<u>(58 805 968)</u>
Net cash flows from investing activities		
Net increase/(decrease) in cash and cash equivalents		35 301 309
Cash and cash equivalents transferred in during merger		2 970 086
Cash and cash equivalents at the end of the year	7	<u>38 271 395</u>

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	175 810 677	-	175 810 677	117 962 297	(57 848 380)	N1
Rental of facilities and equipment	1 124 159	-	1 124 159	591 870	(532 289)	Ins
Income from agency services	5 747 742	-	5 747 742	4 453 556	(1 294 186)	Ins
Sundry fees and income	4 474 959	-	4 474 959	690 548	(3 784 411)	N2
Gain on disposal of property, plant and equipment	452 768	-	452 768	-	(452 768)	Ins
Interest revenue	7 502 868	-	7 502 868	7 555 552	52 684	Ins
Gains on disposal of assets	-	-	-	3 550 381	3 550 381	N3
Total revenue from exchange transactions	195 113 173	-	195 113 173	134 804 204	(60 308 969)	

Revenue from non-exchange transactions

Taxation revenue

Property rates	32 950 487	-	32 950 487	21 625 697	(11 324 790)	N4
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Transfer revenue

Government grants & subsidies	239 456 899	-	239 456 899	168 085 887	(71 371 012)	N5
Fines, Penalties and Forfeits	249 941	-	249 941	-	(249 941)	Ins

Total revenue from non-exchange transactions	272 657 327	-	272 657 327	189 711 584	(82 945 743)	
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Total revenue	467 770 500	-	467 770 500	324 515 788	(143 254 712)	
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Expenditure

Employee related costs	(134 713 628)	-	(134 713 628)	(100 825 850)	33 887 778	N6
Remuneration of councillors	(11 389 444)	-	(11 389 444)	(7 376 925)	4 012 519	N7
Depreciation and amortisation	(69 326 806)	-	(69 326 806)	(65 157 003)	4 169 803	Ins
Bad debt provision	(8 859 711)	-	(8 859 711)	(32 985 584)	(24 125 873)	N8
Finance costs	(605 296)	-	(605 296)	(4 914 114)	(4 308 818)	N9
Lease rentals on operating lease	(215 829)	-	(215 829)	(418 185)	(202 356)	
Repairs and maintenance	(20 103 499)	-	(20 103 499)	(4 505 563)	15 597 936	N10
Bulk purchases	(80 657 232)	-	(80 657 232)	(69 018 919)	11 638 313	N11
Contracted Services	(6 200 507)	-	(6 200 507)	(3 417 077)	2 783 430	N12
Transfers and Subsidies	(67 046)	-	(67 046)	-	67 046	Ins
Inventories losses/write-downs	-	-	-	(86 519)	(86 519)	Ins
Actuarial losses	-	-	-	(4 955 419)	(4 955 419)	N13
General Expenses	(118 791 988)	-	(118 791 988)	(67 387 668)	51 404 320	N14
Total expenditure	(450 930 986)	-	(450 930 986)	(361 048 826)	89 882 160	
Deficit before taxation	16 839 514	-	16 839 514	(36 533 038)	(53 372 552)	

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
R	R	R	R	R	

N1: Forecasting was affected by consolidation of approved budgets which were never reviewed through the budget adjustment process due to financial integration difficulties during merger process. Budgets assumptions were not based on realistic collection rates due to the large number of indigent households within the municipality.

N2: Forecasting was affected by consolidation of approved budgets which were never reviewed through the budget adjustment process due to financial integration difficulties during merger process. Budgets assumptions were not based on realistic collection rates due to the large number of indigent households within the municipality.

N3: Forecasting was affected by consolidation of approved budgets which were never reviewed through the budget adjustment process due to financial integration difficulties during merger process. Budgets assumptions were not based on realistic collection rates due to the large number of indigent households within the municipality.

N4: Forecasting was affected by consolidation of approved budgets which were never reviewed through the budget adjustment process due to financial integration difficulties during merger process. Budgets assumptions were not based on realistic collection rates due to the large number of indigent households within the municipality.

N5: Approved budget never reviewed through the budget adjustment process due to financial integration difficulties during merger process, thus allocation adjustments from national treasury were never effected. The deduction of unspent conditional grants from the equitable share has also resulted in a difference from the allocated amount.

N6: The moratorium on filling of vacant positions pre merger and the post merger organogram not finalised as yet has resulted in no appointment of positions which are vacant or resignations, deaths and retirements current appointed of employees.

N7: Consolidated budgets of former municipalities was budgeted on the number of councillors that were in existence in former municipalities. Adjustment budget was not done to correct the budgeted number of councillors.

N8: Inadequate budgeting for provision for bad debts and no regular debt write offs of debt leading to an exorbitant provision.

N9: Poor cash flow as a result of inherited debt from former municipalities resulting in the municipality not being able to meet its financial obligations resulting in interest charges.

N10: Poor cash flow as a result of inherited debt from former municipalities resulting in the municipality not being able to fund repairs and maintenance.

N11: Defaulting on the payment of Eskom as a result of cash flow challenges, however repayment arrangement in place with implementation of debt recovery plan.

N12: Poor cash flow as a result of inherited debt from former municipalities resulting in the municipality not being able to fund expenditure.

N13: Unanticipated costs as a result of actuarial calculations of employee benefit liabilities.

N14: Poor cash flow as a result of inherited debt from former municipalities resulting in the municipality not being able to fund expenditure.

Ins: Variance considered not to be material for the municipality. Refer for to accounting policy note 1.25 for more information.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act 56 of 2003.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

The municipality was established on 7 August 2016 as a result of the redemarcation of local municipalities. Camdeboo Local Municipality, Baviaans Local Municipality and Ikwezi Local Municipality merged to form the Dr Beyers Naude Local Municipality.

The reporting period is 7 August 2016 to 30 June 2017. Given that this is the first year the municipality operates, there is no comparative disclosure.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Receivables from exchange and non-exchange transactions

The municipality assesses its financial assets measured at amortised cost for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

In measuring value in use the municipality:

- ¥ base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- ¥ base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- ¥ estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the municipality operates, or for the market in which the asset is used, unless a higher rate can be justified.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Provision for rehabilitation of landfill sites

The Municipality has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the net present value of cost.

The uncertainties and assumptions attached to this provision are listed as follows:

- ¥ The landfill closure designs are based on current day legislation (Minimum Requirements for Waste Disposal by Landfill, Second Edition 1998) and current permits. Should the Minister require for the sites to be relicensed or brought in line with new legislation, the closure requirements may be affected which may in turn affect the costing analysis.
- ¥ It is assumed that clean sand and clay is available locally (nearby/alongside/within) to the site and no importation (long-distance haulage) of materials is required. Material on or close to site is sufficient for closure.
- ¥ It is assumed that the general public have not requested a specific final shape or end use for the landfill sites.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. This is best approximated rate by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.s.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of Property, Plant and Equipment and Investment Property

The municipality depreciates/amortises its property, plant and equipment and investment property over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.

The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

At each reporting date the management assesses the assets for any indication that the municipality's expectations about the residual values and the useful lives of assets have changed since the preceding reporting date. If any such indication exists, the municipality shall revise the expected useful life and/or residual value accordingly.

Water inventory

The estimation of the water stock in the reservoirs is based on the measurement of water after the depth of water in the reservoirs have been determined, which is then converted into volumes based on the total capacity of the reservoir.

1.3 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

• distribution at no charge or for a nominal charge; or

• consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories, other than land, having a similar nature and use to the municipality. Land is valued at the specific value when transferred to inventories from investment property or property, plant and equipment.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Policies

1.3 Inventories (continued)

Water is regarded as inventory when the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the municipality but can not be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the statement of financial position. The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates. Water and purified effluent are valued by using the (weighted average) method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

1.4 Financial instruments

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition at amortised cost.

All financial assets measured at amortised cost are subject to an impairment review.

Gains and losses

For financial assets and financial liabilities measured at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Policies

1.4 Financial instruments (continued)

Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- ¥ the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- ¥ the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- ¥ the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

Presentation

Gains or losses relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.5 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Policies

1.5 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- Y base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- Y base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- Y estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the municipality operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- Y projections of cash inflows from the continuing use of the asset;
- Y projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- Y net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- Y cash inflows or outflows from financing activities; and
- Y income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Policies

1.5 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

Y its recoverable amount (if determinable); and

Y the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.6 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Policies

1.6 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Policies

1.6 Impairment of non-cash-generating assets (continued)

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.7 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- ¥ use in the production or supply of goods or services or for
- ¥ administrative purposes, or
- ¥ sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.8 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- ¥ it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- ¥ the cost of the item can be measured reliably.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Policies

1.8 Property, plant and equipment (continued)

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Indefinite
Buildings	30 - 100 years
Infrastructure	
- Roads and paving	50 years
- Electricity	20 - 30 years
- Water	15 - 20 years
- Sewerage	15 - 20 years
- Landfill sites	30 years
Community	
- Recreational facilities	20 - 50 years
- Security	5 years
Other	
Specialised vehicles	10 years
Other vehicles	5 years
Office equipment	3 - 7 years
Furniture and fittings	7 - 20 years
Watercraft	15 years
Bins and containers	5 years
Specialised plant and equipment	10 - 15 years
Other plant and equipment	2 - 5 years

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Policies

1.8 Property, plant and equipment (continued)

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

In assessing whether there is any indication that the expected useful life of an asset has changed, the municipality considers the following indications:

- ¥ The composition of the asset changed during the reporting period, i.e. the significant components of the asset changed.
- ¥ The use of the asset has changed, because of the following:
 - The municipality has changed the manner in which asset is used.
 - The municipality has changed the utilisation rate of the asset.
 - The municipality has made a decision to dispose of the asset in a future reporting period(s) and that this decision will change the expected period over which the asset will be used.
 - Technological, environmental, commercial or other changes that occurred during the reporting period that have, or will, change the use of the asset.
 - Legal or similar limits placed on the use of the asset have changed.
 - The asset was idle or retired from use during the reporting period.
 - The asset was idle or retired from use during the reporting period.
- ¥ The asset is approaching the end of its previously expected useful life.
- ¥ Planned repairs and maintenance on, or refurbishments of, the asset and/or its significant components either being undertaken or delayed.
- ¥ Environmental factors, e.g. increased rainfall or humidity, adverse changes in temperatures or increased exposure to pollution.
- ¥ There is evidence that the condition of the asset improved or declined based on assessments undertaken during the reporting period.
- ¥ The asset is assessed as being impaired.
- ¥ Other indicators which may indicate a change in useful life or residual value of the asset.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.9 Intangible assets

An asset is identifiable if it either:

- ¥ is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- ¥ arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Policies

1.9 Intangible assets (continued)

An intangible asset is recognised when:

- ¥ it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- ¥ the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Software		3 years

1.10 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Policies

1.10 Heritage assets (continued)

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised.

1.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Operating leases - Municipality as the lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in statement of financial performance. Income for leases is disclosed under revenue in statement of financial performance. The difference between the amounts recognised as income and the contractual receipts are recognised as an operating lease asset or liability.

Operating leases - The municipality as the lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.12 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Policies

1.13 Provisions and contingencies

Provisions are recognised when:

- ¥ the municipality has a present obligation as a result of a past event;
- ¥ it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- ¥ a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate of the expenditures expected to be required to settle the obligation. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

1.14 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- ¥ wages, salaries and social security contributions;
- ¥ short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- ¥ bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- ¥ non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- ¥ as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- ¥ as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Policies

1.14 Employee benefits (continued)

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Long-service awards

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate municipality (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- Y as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- Y as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

The municipality account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- Y the present value of the defined benefit obligation at the reporting date;
- Y plus any liability that may arise as a result of a minimum funding requirement

Any adjustments arising from the limit above is recognised in surplus or deficit.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Policies

1.14 Employee benefits (continued)

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- ¥ current service cost;
- ¥ interest cost;
- ¥ the expected return on any plan assets and on any reimbursement rights;
- ¥ actuarial gains and losses;
- ¥ past service cost;
- ¥ the effect of any curtailments or settlements; and
- ¥ the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an municipality shall attribute benefit on a straight-line basis from:

- ¥ the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- ¥ the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

1.15 Commitments

Items are classified as commitments when an municipality has committed itself to future transactions that will normally result in the outflow of cash. Refer to note 37 for commitments the municipality are required to honour.

1.16 Value-Added Tax

The municipality is registered with SARS for VAT on the payment basis, in accordance with Section 15 (2)(a) of the Value-Added Tax Act No 89 of 1991.

1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Policies

1.17 Revenue from exchange transactions (continued)

Rendering of services

Service charges relating to solid waste, sanitation and sewage are levied in terms of the approved tariffs.

Service charges relating to electricity and water are based on consumption. Meters are normally read on a monthly basis and are recognised as revenue when invoiced. Where meters are not read monthly, provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

Pre-paid electricity

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. An adjustment for an unutilised portion is made at year-end based on the average consumption history.

Interest, income from agency services and rental of facilities and equipment

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Agency fees charged on agency services provided is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The agency fees income is recognised in terms of the agency agreement.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

1.18 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Recognition

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

An inflow of resources from a non-exchange transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow. A present obligation arising from a non-exchange transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Government grants and receipts

Equitable share allocations are recognised in revenue at the start of the financial year if no time-based restrictions exist

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised once the conditions are met, revenue is recognised and the liability is reduced. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

Fines

Fines constitute both spot fines and summonses. At transaction date, the municipality recognises the full amount of fines, due to the municipality being obligated to collect all revenue due to it. Subsequent to initial recognition and measurement management assesses the collectability of the fine revenue and recognises an impairment loss where appropriate.

Public contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by an municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Policies

1.20 Unauthorised expenditure

Unauthorised expenditure includes:

- ¥ Overspending of the total amount appropriated in the municipality's approved budget.
- ¥ Overspending of the total amount appropriated for a vote in the approved budget.
- ¥ Expenditure from a vote unrelated to the department or functional area covered by the vote.
- ¥ Expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose.
- ¥ Spending of an allocation otherwise than in accordance with the conditions of the allocation.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the period that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the period that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure in terms of section 1 of the MFMA means expenditure incurred by a municipality in contravention of, or that is not in accordance with the:

- ¥ MFMA
 - ¥ Municipal Systems Act (Act No. 32 of 2000)
 - ¥ Public Office-Bearers Act (Act No. 20 of 1998), or
 - ¥ A requirement of the supply chain management policy of the municipality or any of the municipality's by-laws giving effect to such policy, and
- which has not been condoned in terms of that Act, policy or by-law.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Policies

1.22 Irregular expenditure (continued)

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Related parties

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Related parties include key management personnel such as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager and close family members of key management personnel.

All related party transactions during the year and balances at reporting date is disclosed in note 42.

1.24 Budget information

The approved budget is prepared on a accrual basis. The approved budget covers the fiscal period from 7 August 2016 to 30 June 2017.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The municipality considers budget variances greater than 10% and R 1 620 000 (approximately 0.5% of revenue) as material.

1.25 Comparative figures

There is no comparative figures for the year under review as this is a new established municipality.

1.26 Mergers

Determining the merger date

The combined municipality and the combining entities identify the merger date, which is the date on which the new reporting municipality obtains control of the assets and liabilities and the combining municipalities loses control of their assets and liabilities.

All relevant facts and circumstances are considered in identifying the merger date.

Assets acquired and liabilities assumed

The assets and liabilities that qualify for recognition in a merger are part of what had been agreed in terms of the binding arrangement, rather than the result of separate transactions.

Other criteria for the entity (as the combined entity)

The assets and liabilities that qualify for recognition as set out in the binding arrangement meets the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements and the recognition criteria in the applicable Standards of GRAP at the merger date.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Policies

1.26 Mergers (continued)

Costs that the entity expects but which the municipality is not obliged to incur in the future to effect its plan to exit an activity of the combining entities or to terminate the employment of, or relocate the combining entities' employees, is not be accounted for as part of the liabilities at the merger date. The municipality does not recognise those costs as part of a merger. Instead, the municipality recognises these costs in its annual financial statements after the merger has occurred, in accordance with the applicable Standards of GRAP.

Accounting by the entity as the combined entity

Initial recognition and measurement

As of the merger date, the municipality recognises all the assets acquired and liabilities assumed. The assets acquired and liabilities assumed are measured at their carrying amounts.

If, prior to the merger, a combining municipality was not applying the accrual basis of accounting, that combining municipality changes its basis of accounting to the accrual basis of accounting prior to the merger.

The difference between the carrying amounts of the assets acquired and the liabilities assumed is recognised in accumulated surplus or deficit.

Expenditure incurred in relation to the merger

Expenditures incurred in relation to the merger are costs that the municipality incurs to effect the merger. These costs include advisory, legal, accounting and other professional or consulting fees, general administrative costs, costs to furnish information to owners of the combining entities, and salaries and other expenses related to services of employees involved in achieving the merger. It also includes costs or losses incurred in combining the assets and liabilities of the combining entities. The municipality accounts for such expenditure as expenses in the period in which the costs are incurred.

Subsequent measurement

The municipality subsequently measures any assets acquired and any liabilities assumed in a merger in accordance with the applicable Standards of GRAP.

At the merger date, the municipality classifies or designates the assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequently. The municipality makes those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, the operating or accounting policies and other relevant conditions as these exist at the merger date. An exception is that the municipality classifies lease contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the merger date). Lease contract are classified as either an operating lease or a finance lease in accordance with the Standard of GRAP on Leases.

The annual financial statements of the municipality are prepared using uniform accounting policies for similar transactions and other events or similar circumstances.

1.27 Accumulated surplus

Included in the accumulated surplus of the municipality, are the following reserves that are maintained in terms of specific requirements:

Capital replacement reserve (CRR)

In order to finance the provision of infrastructure and other property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus to the CRR in terms of delegated powers.

The following provisions are set for the creation and utilisation of the CRR: The cash may only be invested in accordance with the investment policy of the municipality. The CRR may only be utilised for the purpose of purchasing items of property, plant and equipment, and may not be used for the maintenance of these items.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Accounting Policies

1.27 Accumulated surplus (continued)

Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR, and the accumulated surplus is credited by a corresponding amount.

If a profit is made on the sale of assets other than land, the profit on these assets is reflected in the Statement of Financial Performance, and is then transferred via the Statement of Changes in Net Assets to the CRR, provided that it is cash backed. Profit on the sale of land is not transferred to the CRR, as it is regarded as revenue.

On the implementation of GRAP, the balance of certain funds, created in terms of the various Provincial Ordinances applicable at the time, that had historically been utilised for the acquisition of items of property, plant and equipment, were transferred to a Capitalisation Reserve rather than the accumulated surplus/deficit, as in prior years, in terms of a directive (Circular No. 18) issued by National Treasury. The purpose of this Reserve is to promote consumer equity by ensuring that the future depreciation charge that will be incurred over the useful lives of these items of property, plant and equipment is offset by transfers from this reserve to the accumulated surplus/deficit.

Capitalisation Reserve

The balance on the Capitalisation Reserve equals the carrying value of the items of property, plant and equipment financed from the former legislated funds. When items of property, plant and equipment are depreciated, a transfer is made from the Capitalisation Reserve to the accumulated surplus/deficit. When an item of property, plant and equipment is disposed, the balance in the Capitalisation Reserve relating to such item is transferred to the accumulated surplus/deficit.

Insurance reserve

A general insurance reserve has been established, and subject to reinsurance where deemed necessary, it covers claims that may occur which are not covered by the insurance contracts in place with the external service providers. Premiums are charged to the respective services, taking into account claims history and replacement value of the insured assets. Reinsurance premiums paid to external reinsurers are regarded as an expense, and are shown as such in the Statement of Financial Performance. The net surplus or deficit on the insurance operating account is transferred to or from the insurance reserve via the Statement of Changes in Net Assets. The balance of the self-insurance reserve is invested in short-term cash investments. Interest earned on the insurance reserve is recorded as interest earned in the Statement of Financial Performance, and is transferred to the insurance reserve via the Statement of Changes in Net Assets as a contribution.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

Period ended
30 June 2017
R

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current period

In the current period, the municipality has adopted the following standards and interpretations that are effective for the current financial period and that are relevant to its operations:

GRAP 16 (as amended 2015): Investment Property

Based on the feedback received as part of the post-implementation review, the Accounting Standards Board agreed to reconsider certain principles in GRAP 16. In particular the board agreed to:

- Y Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Y Consider whether an indicator-based assessments of assets could be introduced.
- Y Clarify the wording related to the use of external valuers.
- Y Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Y Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Y Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Various amendments were made to the standard, affecting definitions, identification, disclosure, effective date and transitional provisions.

The effective date of the amendment is for years beginning on or after 01 April 2016.

The municipality has adopted the amendment for the first time in the 2017 annual financial statements.

The impact of the amendment is set out in note Changes in Accounting Policy.

GRAP 17 (as amended 2015): Property, Plant and Equipment

Amendments to the Standard of GRAP on Property, Plant and Equipment resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

Based on the feedback received as part of the post-implementation review, the Accounting Standards Board agreed to reconsider certain principles in GRAP 17. In particular the board agreed to:

- Y Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Y Consider whether an indicator-based assessments of assets could be introduced.
- Y Clarify the wording related to the use of external valuers.
- Y Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Y Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Y Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Amendments identified as part of the post-implementation review affected the following areas:

- Y Indicator-based assessment of the useful lives of assets
- Y Use of external valuers
- Y Encouraged disclosures
- Y Capital work-in-progress
- Y Expenditure incurred on repairs and maintenance

The effective date of the amendment is for years beginning on or after 01 April 2016.

The municipality has adopted the amendment for the first time in the 2017 annual financial statements.

The impact of the amendment is set out in note Changes in Accounting Policy.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 31 (as amended 2015): Intangible Assets

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets (IPSAS 31) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015.

Based on the feedback received as part of the post-implementation review, the Accounting Standards Board agreed to reconsider certain principles in GRAP 31. In particular the board agreed to:

- Y Consider whether an indicator-based assessments of assets could be introduced.
- Y Clarify the wording related to the use of external valuers.
- Y Review the encouraged disclosures and assess whether any should be made mandatory or deleted.

The effective date of the amendment is for years beginning on or after 01 April 2016.

The municipality has adopted the amendment for the first time in the 2017 annual financial statements.

The impact of the amendment is set out in note Changes in Accounting Policy.

GRAP 103 (as amended 2015): Heritage Assets

Amendments to the Standard of GRAP on Heritage Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from editorial changes to the original text.

Based on the feedback received as part of the post-implementation review, the Accounting Standards Board agreed to reconsider certain principles in GRAP 103. In particular the board agreed to:

- Y Review the principles and explanations related to the distinction between heritage assets and property, plant and equipment.
- Y Consider whether an indicator-based assessments of assets could be introduced.
- Y Clarify the wording related to the use of external valuers.
- Y Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Y Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

The effective date of the amendment is for years beginning on or after 01 April 2016.

The municipality has adopted the amendment for the first time in the 2017 annual financial statements.

The impact of the amendment is set out in note Changes in Accounting Policy.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2017 or later periods:

GRAP 34: Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when a municipality prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 35: Consolidated Financial Statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when a municipality controls one or more other entities.

To meet this objective, the Standard:

- Y requires an municipality (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- Y defines the principle of control, and establishes control as the basis for consolidation;
- Y sets out how to apply the principle of control to identify whether a municipality controls another entity and therefore must consolidate that municipality;
- Y sets out the accounting requirements for the preparation of consolidated financial statements; and
- Y defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 36: Investments in Associates and Joint Ventures

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 37: Joint Arrangements

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet this objective, the Standard defines joint control and requires a municipality that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

It furthermore covers Definitions, Joint arrangements, Financial statements and parties to a joint arrangement, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- ¥ the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- ¥ the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 110: Living and Non-living Resources

The objective of this Standard is to prescribe the:

- ¥ recognition, measurement, presentation and disclosure requirements for living resources; and
- ¥ disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality expects to adopt the interpretation for the first time in the 2019 annual financial statements.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The adoption of this interpretation is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- Y identifying related party relationships and transactions;
- Y identifying outstanding balances, including commitments, between an entity and its related parties;
- Y identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- Y determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- Y A person or a close member of that person's family is related to the reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity;
 - is a member of the management of the entity or its controlling entity.
- Y An entity is related to the reporting entity if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - both entities are joint ventures of the same third party;
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
 - the entity is controlled or jointly controlled by a person identified in (a); and
 - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Y Close member of the family of a person;
- Y Management;
- Y Related parties;
- Y Remuneration; and
- Y Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Y Control;

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

¥ Related party transactions; and

¥ Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the interpretation is not yet set by the Minister of Finance.

The municipality expects to adopt the interpretation for the first time when the Minister sets the effective date for the interpretation.

The adoption of this interpretation is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

Period ended
2017
R

3. Inventories

Consumable stores	3 942 092
Water	959 349
Land held for sale	1 519 822
	6 421 263

The amount of inventories recognised as expenses for the year amounted to R 29 685 677.

The cost of water production for the year amounted to R 5.74 per kl.

No inventories have been pledged as collateral for liabilities of the municipality.

Inventory transferred in during merger

Consumable stores	4 633 411
Water	188 907
	4 822 318

4. Receivables from exchange transactions

Sundry debtors	8 384 332
Meter readings not billed yet	1 813 074
Salary control account	1 101 472
	11 298 878

Sundry debtors are unsecured and interest free.

The concentration of credit risk is limited due to the customer base being spread over a large number of consumers and is not concentrated in any particular sector or geographical area. Accordingly, management believe that there is no further credit provision required in excess of the provision for impairment.

Merger

The following receivables from exchange transactions were transferred in during the merger:

Sundry debtors	5 243 063
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5. Receivables from non-exchange transactions

Sundry debtors	586 167
Sundry deposits	250 900
	837 067

Merger

The following receivables from non-exchange transactions were transferred in during the merger:

Sundry debtors	4 708 448
Sundry deposits	100 900
	4 809 348

The municipality did not pledge any of its receivables from non-exchange transactions as security for borrowing purposes.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

Period ended
2017
R

5. Receivables from non-exchange transactions (continued)

The concentration of credit risk is limited due to the customer base being spread over a large number of consumers and is not concentrated in any particular sector. Accordingly, management believe that there is no further credit provision required in excess of the provision for impairment.

6. Consumer debtors

Gross balances

Rates	25 390 310
Electricity	13 435 255
Water	48 493 290
Sewerage	24 248 161
Refuse	15 874 401
Housing rental	2 423 236
Sundry	3 435 910

133 300 563

Less: Allowance for impairment

Rates	(20 548 008)
Electricity	(4 819 319)
Water	(45 559 865)
Sewerage	(22 915 900)
Refuse	(14 505 553)
Housing rental	(2 413 852)
Sundry	(3 019 861)

(113 782 358)

Net balance

Rates	4 842 302
Electricity	8 615 936
Water	2 933 425
Sewerage	1 332 261
Refuse	1 368 848
Housing rental	9 384
Sundry	416 049

19 518 205

Included in above is receivables from exchange transactions

Electricity	8 615 936
Water	2 933 425
Sewerage	1 332 261
Refuse	1 368 848
Housing rental	9 384

14 259 854

Included in above is receivables from non-exchange transactions (taxes and transfers)

Rates	4 842 302
Sundry	416 049

5 258 351

Net balance

19 518 205

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

Period ended
2017
R

6. Consumer debtors (continued)

Rates

Current (0 -30 days)	777 766
31 - 60 days	111 554
61 - 90 days	174 518
91 - 120 days	43 631
121 - 150 days	19 353
More than 151 days	3 715 480
	4 842 302

Electricity

Current (0 -30 days)	5 727 525
31 - 60 days	610 162
61 - 90 days	484 005
91 - 120 days	291 034
121 - 150 days	226 590
More than 151 days	1 276 620
	8 615 936

Water

Current (0 -30 days)	966 874
31 - 60 days	498 370
61 - 90 days	323 780
91 - 120 days	316 775
121 - 150 days	181 570
More than 151 days	646 056
	2 933 425

Sewerage

Current (0 -30 days)	446 086
31 - 60 days	123 329
61 - 90 days	90 889
91 - 120 days	61 426
121 - 150 days	25 181
More than 151 days	585 350
	1 332 261

Refuse

Current (0 -30 days)	837 100
31 - 60 days	69 223
61 - 90 days	43 578
91 - 120 days	30 952
121 - 150 days	21 926
More than 151 days	366 069
	1 368 848

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

Period ended
2017
R

6. Consumer debtors (continued)

Housing rental

Current (0 -30 days)	-
31 - 60 days	-
61 - 90 days	-
91 - 120 days	-
121 - 150 days	-
More than 151 days	9 384
	9 384

Sundry

Current (0 -30 days)	130 267
31 - 60 days	47 571
61 - 90 days	38 063
91 - 120 days	19 565
121 - 150 days	40 313
More than 151 days	140 270
	416 049

Reconciliation of allowance for impairment

Balance at beginning of the year	-
Transferred in during merger	(82 154 124)
Contributions to allowance	(31 628 234)
	(113 782 358)

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2017, R 10 632 587 were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	1 460 209
2 months past due	1 154 833
3 months past due	763 383
More than 3 months past due	7 254 162

Consumer debtors impaired

As of 30 June 2017, consumer debtors of R 110 716 433 were impaired and provided for.

The ageing of these consumer debtors is as follows:

0 to 3 months	2 118 107
3 to 6 months	5 203 060
Over 6 months	103 395 266

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

Period ended
2017
R

6. Consumer debtors (continued)

Merger

The following gross consumer debtors were transferred in during the merger:

Gross consumer debtors from exchange transactions

Electricity	11 035 007
Water	38 555 414
Sewerage	26 566 162
Refuse	15 326 053
Housing rental	2 385 632
	93 868 268

Gross consumer debtors from non-exchange transactions

Rates	23 421 310
Sundry	4 147 375
	27 568 685

Provision for doubtful debts

Provision for doubtful debts transferred in	(81 107 762)
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No interest is charged on rates accounts until the end of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance.

Consumer debtors are billed monthly. No interest is charged on consumer debtor accounts until the end of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance. At 30 June 2017, the municipality is owed R 30 655 093 by National and Provincial Government. The municipality did not pledge any of its consumer debtors as security for borrowing purposes.

In determining the recoverability of consumer debtors, the municipality considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being spread over a large number of consumers and is not concentrated in any particular sector. Accordingly, management believe that there is no further credit provision required in excess of the provision for impairment.

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2 240
Bank balances	5 615 062
Short-term deposits	32 654 093
	38 271 395

Merger

The following cash and cash equivalents were transferred in during the merger:

Cash on hand	2 955
Bank balances	1 941 531
Short-term deposits	1 025 600
	2 970 086

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

7. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances 30 June 2017	Cash book balances 30 June 2017
ABSA - Account number - 4053623514	565 111	-
ABSA - Account number 9257114251	22 063	20 725
ABSA - Account number- 4053099797	34 256	-
FNB - Account number - 62374218503	23 516 102	23 516 102
ABSA - Account number - 4053048940	1 249 609	-
FNB - Account number - 74374220066	910 609	910 609
FNB - Account number - 52300007898	3 074 334	-
Investec - Account number - 1100458805501	2 938	-
Standard Bank - Account number - 280252013	1 168 995	-
Standard Bank - Account number - 280230893	536 341	-
Standard Bank Trust Fund - Account number - 288865537-001	9 002	-
Standard Bank - Account number - 288865316-001	1 471	-
Standard Bank Trust Fund - Account number - 288865537-002	4 334	-
Standard Bank Trust Fund - Account number - 288865537-003	1 299	-
Standard Bank Trust Fund - Account number - 288865537-004	25 104	-
Standard Bank Trust Fund - Account number - 288865537-005	49 178	-
Total	31 170 746	24 447 436

8. Investment property

	2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	67 783 409	-	67 783 409

Reconciliation of investment property - 2017

	Opening balance	Transferred in from merger	Total
Investment property	-	67 783 409	67 783 409

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

All of the municipality's investment property is held under freehold interests and no investment property had been pledged as security for any liabilities of the municipality. There are no restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal. There are no contractual obligations on investment property.

The municipality's investment properties are accounted for according to the cost model and therefore no fair value has been determined. No impairment losses have been recognised on investment property of the municipality at the reporting date.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

9. Property, plant and equipment

	2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	251 468 458	(84 979 732)	166 488 726
Infrastructure	1 989 797 065	1 160 023 249	829 773 816
Community	27 947 855	(17 036 850)	10 911 005
Other assets	63 006 013	(45 900 011)	17 106 002
Work in progress	82 745 895	-	82 745 895
Total	2 414 965 286	(1 307 939 842)	1 107 025 444

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Additions through transfer of mergers	Transfers	Depreciation	Total
Land and buildings	-	-	-	169 167 450	-	(2 678 724)	166 488 726
Infrastructure	-	11 402 950	(40 019)	868 183 621	7 315 053	(57 087 789)	829 773 816
Community	-	-	-	11 471 200	-	(560 195)	10 911 005
Other assets	-	356 219	-	21 449 133	-	(4 699 350)	17 106 002
Work in progress	-	50 587 891	-	39 473 057	(7 315 053)	-	82 745 895
	-	62 347 060	(40 019)	1 109 744 461	-	(65 026 058)	1 107 025 444

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Total
Transferred in from merger	39 473 057	39 473 057
Additions/capital expenditure	50 587 981	50 587 981
Transferred to completed items	(7 315 053)	(7 315 053)
	82 745 985	82 745 985

10. Intangible assets

	2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 293 262	(1 040 399)	252 863

Reconciliation of intangible assets - 2017

	Opening balance	Transferred in during merger	Additions	Amortisation	Total
Computer software	-	313 256	49 308	(109 701)	252 863

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

11. Heritage assets

	2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical buildings and monuments	13 452 791	-	13 452 791

Reconciliation of heritage assets 2017

	Opening balance	Transferred in during merger	Total
Historical buildings and monuments	-	13 452 791	13 452 791

There are no restrictions on the realisability of Heritage Assets or the remittance of revenue and proceeds of disposal. There are no contractual obligations to purchase, construct or develop Heritage Assets or for repairs, maintenance or enhancements. There are no Heritage Assets pledged as security for liabilities.

12. Payables from exchange transactions

Trade payables	70 624 077
Accrued bonus	4 130 556
Accrued leave pay	5 911 123
Other accruals	18 295 254
Amounts received in advance and unallocated deposits	3 648 090
Retentions	37 932
Stale cheques	29 600
Sundry deposits	29 061
	102 705 693

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA, except when the liability is disputed. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has policies in place to ensure that all payables are paid within the credit timeframe.

Accrued leave pay to the staff of the municipality on an annual basis, subject to certain conditions. The accrual is an estimate of the amount due at the reporting date.

Accrued bonus relates to the thirteenth cheque payable annually by the municipality. The accrual is an estimate of the amount due at the reporting date.

Merger

The following payables from exchange transactions were transferred in during the merger:

Trade payables	47 956 890
Accrued bonus	1 553 631
Accrued leave pay	5 639 634
Other accruals	6 342 512
Other creditors	22 630 036
Retentions	64 199
Sundry deposits	3 513 941
	87 700 843

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

Period ended
2017
R

13. Payables from non-exchange transactions

Sundry deposits	6 449 978
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No credit period exists for payables from non-exchange Transactions, neither has any credit period been arranged. No interest is charged on outstanding amounts. Sundry deposits consists of unidentified deposits and credit balances on receivables from non-exchange transactions.

Merger

The following payables from exchange transactions were transferred in during the merger:

Sundry deposits	6 285 344
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14. VAT payable

VAT payable	590 692
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No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

Merger

The following VAT balances were transferred in during the merger:

VAT receivable	3 757 953
----------------	-----------

15. Consumer deposits

Electricity	1 906 734
Water	978 299
	2 885 033

Consumer deposits are paid by consumers on application for new electricity and water connections. The deposits are repaid when the electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account. No interest is paid on consumer deposits held.

Merger

The following consumer deposits were transferred in during the merger:

Electricity	1 745 216
Water	959 809
	2 705 025

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

Period ended
2017
R

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Integrated national electrification program grant	6 116 170
Municipal infrastructure grant	24 378 540
Expanded public works programme integrated grant	1 793 843
Department of water affairs grant	1 586 724
Local economic development grant - Fonteinbos project	1 171 819
Lotto grant	653 320
	35 700 416

Movement during the period

Balance at the beginning of the period	-
Transferred in during merger	13 927 571
Additions during the period	123 424 624
Income recognition during the period	(101 651 779)
	35 700 416

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 22 for reconciliation of grants from National/Provincial Government.

17. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of the defined medical benefit obligation	(37 582 734)
Present value of the long-service award obligation	(9 182 745)
	(46 765 479)
Non-current liabilities	(44 893 455)
Current liabilities	(1 872 024)
	(46 765 479)

Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2017 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

Period ended
2017
R

17. Employee benefit obligations (continued)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	-
Transferred in during merger	(30 470 701)
Current service cost	(1 330 272)
Interest cost	(2 801 274)
Benefits paid	1 060 404
Actuarial (gains) losses	(4 040 891)
	(37 582 734)

Key assumptions used and employee information

Assumptions used at the reporting date:

Discount rates used	9.92 %
Consumer price inflation	6.78 %
Health care cost inflation rate	8.28 %
Net Effective Discount rate	1.51 %

Current (In Service) Members

Number of active employees	231
Subsidy weighted average age	42.42
Subsidy weighted average past service	11.20
Average monthly subsidy payable during retirement	2 275

Continuation Members (Pensioners)

Number of active employees	34
Subsidy weighted average age	71.41
Average monthly subsidy payable during retirement	3 072

Sensitivity

In order to illustrate the sensitivity of the results to changes in certain key variables, we have recalculated the liabilities using the following assumptions:

¥ 1% increase/decrease in the Medical Aid inflation

¥ The impact of a change in the mortality assumption from PA(90) to PA(90)-2 with a two year adjustment:

PA(90) - 2 (with a two-year age adjustment) means that, to each beneficiary we assigned a mortality rate of an individual two years younger than that beneficiary. The resulting mortality implies that the individual lives longer than expected in the valuation basis.

Change in mortality rate

	1% increase	1% decrease
Effect on the interest cost	(644 157)	526 854
Effect on the service cost	(463 915)	360 686
Effect on post retirement medical aid obligation	(6 531 767)	5 277 935

Change in mortality rate

	PA(90) to PA(90) -2
Effect on the interest cost	268 597
Effect on the service cost	137 725
Effect on post retirement medical aid obligation	2 745 198

Long-service award obligation

A Long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the municipality. The provision represents an estimation of the awards to which employees in the service of the municipality may become entitled to in the future, based on an actuarial valuation performed.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

Period ended
2017
R

17. Employee benefit obligations (continued)

The independent valuers, For One Pangaea Financial have been engaged to carry out a GRAP 25: Employee Benefits actuarial valuation of the Municipality's liability as at 30 June 2017 arising out of the long service award obligation awarded to qualifying in service employees.

Changes in the present value of the unfunded long-service award obligation are as follows:

Opening balance	-
Transferred in during merger	(7 574 241)
Current service cost	(917 060)
Interest cost	(621 163)
Benefits paid	844 247
Actuarial gains / (losses)	(914 528)
	(9 182 745)

Key assumptions used and employee information

Assumptions used at reporting date:

Discount rates used	10.04 %
Consumer price index	6.78 %
Normal salary inflation	7.78 %
Net effective discount rate	2.10 %

Current (In Service) Members

Number of active employees	608
Average annual salary (R)	162 205
Average age (Years)	44.50
Average past service (Years)	10.58

Sensitivity

In order to illustrate the sensitivity of the results to changes in certain key variables, we have recalculated the liabilities using the following assumptions:

- ¥ 1% increase/decrease in the normal salary inflation.
- ¥ The impact of a change in the mortality assumption from PA(90) to PA(90)-2 with a two year adjustment: PA(90) - 2 (with a two-year age adjustment) means that, to each beneficiary we assigned a mortality rate of an individual two years younger than that beneficiary. The resulting mortality implies that the individual lives longer than expected in the valuation basis.

Change in normal salary inflation 1% increase 1% decrease

	1% increase	1% decrease
Employer's current service cost	56 389	(51 113)
Employer's current interest cost	54 169	(49 431)
Employer's accrued liability	541 545	(494 368)

Change in mortality decrement

	PA(90) to PA(90) - 2
Employer's current service cost	5 479
Employer's current interest cost	6 287
Employer's accrued liability	63 015

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

Period ended
2017
R

18. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Transferred in during merger	Additions	Total
Rehabilitation and closure of landfill sites	-	12 789 307	1 114 579	13 903 886
Legal proceedings	-	180 000	-	180 000
	-	12 969 307	1 114 579	14 083 886
Non-current liabilities				13 903 886
Current liabilities				180 000
				14 083 886

Rehabilitation and closure of landfill sites

In terms of the licensing of the landfill refuse sites, the municipality will incur licensing and rehabilitation costs of R 18 020 891 to restore the site at the end of its useful life. Provision has been made for the net present value of this cost. The estimated rehabilitation and closure costs at 30 June 2017 has been calculated by technical specialists, One Pangaea Financial.

Rehabilitation and closure costs as at 30 June 2017

The closure costs for the municipality's landfill sites at 30 June 2017 are:

	Number of years until closure	Planning for closure costs	Rehabilitation and closure cost	Total cost (Current cost)	Total cost (Discounted)
Aberdeen	11	840 431	1 010 593	1 851 024	1 321 610
Jansenville	9	840 431	839 786	1 680 217	1 275 435
Willowmore	8	840 431	508 769	1 349 200	1 056 015
Steytlerville	6	840 431	1 736 754	2 577 185	2 144 573
Klipplaat	10	840 431	859 973	1 700 404	1 251 827
Nieu Bethesda	11	840 431	932 954	1 773 385	1 266 177
Rietbron	10	840 431	1 040 220	1 880 651	1 384 524
Graaff Reinet	7	840 431	4 368 394	5 208 825	4 203 725
		6 723 448	11 297 443	18 020 891	13 903 886

Discount rates

The discount rate used to present value the expected rehabilitation and closure cost for landfill sites at the municipality is:

Discount rate (D)	9.42 %
Consumer price inflation (C)	6.12 %
Net discount rate $((1+D)/(1+C)-1)$	3.11 %

19. Rental of facilities and equipment

Premises

Premises	409 430
Venue hire	165 842
	575 272

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

	Period ended 2017 R
19. Rental of facilities and equipment (continued)	
Garages and parking	
Parking meter fees	838
Facilities and equipment	
Rental of facilities	15 760
	591 870
20. Investment revenue	
Interest revenue	
Bank	387 169
Interest charged on trade and other receivables	5 859 447
Investments	1 308 936
	7 555 552
21. Property rates	
Rates received	
Property rates	21 625 697
Valuations	
Commercial	502 663 854
Exempt	149 919 246
Industrial	52 352 000
Multiple	15 080 700
Municipal	206 595 200
Residential	1 817 633 600
Small holdings and farms	4 883 512 900
State	435 866 400
	8 063 623 900

Property Rates are levied on the value of land and improvements, which valuation is performed every four years. The last general valuation came into effect on 1 July 2011. Interim valuations are processed on an continuous basis to take into account changes in individual property values due to alterations and subdivisions. Rates are levied monthly on property owners and are payable the end of each month. Interest is levied at a rate determined by council on outstanding rates amounts.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

Period ended
2017
R

22. Government grants and subsidies

Operating grants

Equitable Share	66 584 108
Cacadu fire grant	1 165 000
Demarcation grant	23 143 000
Department of health grant	1 207 547
Department of human settlements grant	727 642
Department of water affairs grant	1 588 049
DSRAC Libraries grant	2 257 926
Expanded public works programme integrated grant	1 307 157
Financial management grant	5 460 000
Local economic development grant - Fonteinbos	375 877
Local economic development grant - Operational	163 007
SETA training grant	144 665

104 123 978

Capital grants

Municipal infrastructure grant	22 384 291
Integrated national electrification program grant	1 883 829
Regional bulk infrastructure grant	39 693 789

63 961 909

168 085 887

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	92 122 218
Unconditional grants received	75 885 901

168 008 119

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy up to R 285.03, based on the monthly billing, towards the consumer account, which subsidy is determined annually by council. All residential households receive 6 kl water and 50 kWh electricity (indigents only) free every month. No funds have been withheld.

Balance unspent at beginning of period	-
Transferred in during merger	-
Current-year receipts	73 656 047
Conditions met - transferred to revenue	(73 656 047)

-

Sarah Baartman District Municipality fire grant

Balance unspent at beginning of period	-
Transferred in during merger	-
Current-year receipts	1 165 000
Conditions met - transferred to revenue	(1 165 000)

-

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

Period ended
2017
R

22. Government grants and subsidies (continued)

Demarcation grant

Balance unspent at beginning of period	-
Transferred in during merger	-
Current-year receipts	23 143 000
Conditions met - transferred to revenue	(23 143 000)
	-

Department of health grant

Balance unspent at beginning of period	-
Transferred in during merger	-
Current-year receipts	1 207 547
Conditions met - transferred to revenue	(1 207 547)
	-

Department of human settlements grant

Balance unspent at beginning of period	-
Transferred in during merger	-
Current-year receipts	727 642
Conditions met - transferred to revenue	(727 642)
	-

Department of water affairs grant

Balance unspent at beginning of period	-
Transferred in during merger	1 586 724
Current-year receipts	1 588 049
Conditions met - transferred to revenue	(1 588 049)
	1 586 724

Refer to note 16 for conditions still to met with regard to this grant.

DSRAC Libraries grant

Balance unspent at beginning of period	-
Transferred in during merger	-
Current-year receipts	2 257 926
Conditions met - transferred to revenue	(2 257 926)
	-

Expanded public works programme integrated grant

Balance unspent at beginning of period	-
Transferred in during merger	1 000 000
Current-year receipts	2 101 000
Conditions met - transferred to revenue	(1 307 157)
	1 793 843

Refer to note 16 for conditions still to met with regard to this grant.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

Period ended
2017
R

22. Government grants and subsidies (continued)

Financial management grant

Balance unspent at beginning of period	-
Transferred in during merger	-
Current-year receipts	5 460 000
Conditions met - transferred to revenue	(5 460 000)
	-

Local economic development grant - Fonteinbos

Balance unspent at beginning of period	-
Transferred in during merger	1 547 696
Current-year receipts	-
Conditions met - transferred to revenue	(375 877)
	1 171 819

Refer to note 16 for conditions still to met with regard to this grant.

Local economic development grant - Operational

Balance unspent at beginning of period	-
Transferred in during merger	-
Current-year receipts	313 007
Conditions met - transferred to revenue	(313 007)
	-

SETA training grant

Balance unspent at beginning of period	-
Transferred in during merger	-
Current-year receipts	144 665
Conditions met - transferred to revenue	(144 665)
	-

Lotto grant

Balance unspent at beginning of period	-
Transferred in during merger	653 320
Current-year receipts	-
Conditions met - transferred to revenue	-
	653 320

Refer to note 16 for conditions still to met with regard to this grant.

Municipal infrastructure grant

Balance unspent at beginning of period	-
Transferred in during merger	9 139 831
Current-year receipts	37 623 000
Conditions met - transferred to revenue	(22 384 291)
	24 378 540

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

Period ended
2017
R

22. Government grants and subsidies (continued)

Refer to note 16 for conditions still to met with regard to this grant.

Integrated national electrification program grant

Balance unspent at beginning of period	-
Transferred in during merger	-
Current-year receipts	8 000 000
Conditions met - transferred to revenue	(1 883 829)
	6 116 171

Refer to note 16 for conditions still to met with regard to this grant.

Regional bulk infrastructure grant

Balance unspent at beginning of period	-
Transferred in during merger	-
Current-year receipts	39 693 789
Conditions met - transferred to revenue	(39 693 789)
	-

23. Revenue

Fines	76 547
Gain or loss on disposal of assets and liabilities	3 550 381
Government grants & subsidies	168 085 887
Income from agency services	4 453 556
Interest revenue	7 555 552
Property rates	21 625 697
Rental of facilities and equipment	591 870
Service charges	117 962 297
Sundry fees and income	690 548
	324 592 335

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	117 962 297
Rental of facilities and equipment	591 870
Income from agency services	4 453 556
Sundry fees and income	690 548
Interest revenue	7 555 552
	131 253 823

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue	
Property rates	21 625 697
Fines	76 547
Transfer revenue	
Government grants & subsidies	168 085 887
	189 788 131

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

Period ended
2017
R

24. Employee related costs

Basic	71 948 083
Bonus	5 766 739
Medical aid - company contributions	1 464 525
UIF	682 623
WCA	489 999
SDL	910 092
Other payroll levies	973 451
Overalls	8 684
Defined contribution plans	11 852 977
Travel, motor car, accommodation, subsistence and other allowances	1 371 656
Overtime payments	4 293 624
Housing benefits and allowances	1 063 397
	100 825 850

25. Remuneration of councillors

Members of council	7 376 925
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Refer to note 42 for remuneration paid to members of council.

26. Depreciation and amortisation

Property, plant and equipment	65 157 003
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27. Impairment of assets

Impairments

Property, plant and equipment	152 235
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Consumer debtors	32 833 349
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Consumer debtors have been impaired as a result of non-payment by account holders. The municipality have implemented collection procedures against these accounts which have not been successful till date.

32 985 584

28. Finance costs

Trade and other payables	1 491 677
Interest cost on post retirement benefit and long service award obligations	3 422 437
	4 914 114

29. Bulk purchases

Electricity	69 018 919
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30. Contracted services

Security Services	3 417 077
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Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

Period ended
2017
R

31. General expenses

Adjustment of landfill site rehabilitation obligation	1 114 579
Advertising	549 714
Audit committee fees	114 311
Auditors remuneration	17 098 652
Bank charges	271 343
Cacadu grant: Tourism - operating expenditure	50 000
Chemicals	2 916 295
Commission paid	778 028
Consulting and professional fees	2 795 413
Consumables	431 196
Entertainment	80 324
Grant expenditure - Expanded public works program	374 624
Grant expenditure - Finance management grant	2 784 643
Grant expenditure - Local economic development grant	375 877
Grant expenditure - Other	6 277 214
Grant expenditure - Transitional grant	1 412 390
Insurance	1 719 583
Levies	87 679
Motor vehicle expenses	3 377 977
Municipal service charges	22 184 757
Other expenses	1 100 376
Postage and courier	663 257
Project costs	156 581
Staff welfare	6 538
Subscriptions and membership fees	1 222 815
Telephone and fax	2 769 587
Testing samples	253 945
Training	122 854
Travel and subsistence	1 339 054
	72 429 606

32. Auditors' remuneration

Fees	17 098 652
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Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

Period ended
2017
R

33. Cash generated from operations

Deficit	(41 498 429)
Adjustments for:	
Depreciation and amortisation	65 157 003
Loss on sale of assets and liabilities	(3 550 381)
Impairment deficit	32 985 584
Movement in employee benefit obligation - Interest cost	3 422 437
Movements in provisions	1 114 579
Actuarial gains	4 955 419
Movement in employee benefit obligation - Current service cost	2 247 332
Benefits paid on post retirement benefit obligation	(1 904 651)
Changes in working capital:	
Inventories	(1 598 945)
Receivables from exchange transactions	(4 300 599)
Consumer debtors	(13 921 314)
Other receivables from non-exchange transactions	3 972 281
Payables from exchange transactions	22 155 860
VAT	4 348 645
Unspent conditional grants and receipts	20 352 448
Consumer deposits	170 008
	94 107 277

34. Financial instruments disclosure

Categories of financial instruments

2017

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	11 298 878	11 298 878
Receivables from non-exchange transactions	837 067	837 067
Consumer debtors	19 518 205	19 518 205
Cash and cash equivalents	38 271 395	38 271 395
	69 925 545	69 925 545

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	102 705 693	102 705 693
Payables from non-exchange transactions	6 449 978	6 449 978
Consumer deposits	2 885 033	2 885 033
Unspent conditional grants and receipts	35 700 416	35 700 416
	147 741 120	147 741 120

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

Period ended
2017
R

35. Mergers

Mergers occurring during the current reporting period

On 07 August 2016 a merger between the Camdeboo Local Municipality, the Baviaans Local Municipality and the Ikwezi Local Municipality took place establishing a new combined entity called the Dr Beyers Naude Local Municipality.

Asset acquired and liabilities assumed is disclosed in the notes relating to these assets and liabilities.

Comparative information is not required.

36. Commitments

Authorised capital expenditure

Already contracted for but not provided for

Y Infrastructure

75 178 323

Total capital commitments

Already contracted for but not provided for

75 178 323

This committed expenditure relates to Infrastructure and will be financed by Government grants and own resources.

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year

849 943

- in second to fifth year inclusive

172 923

1 022 866

Operating lease payments represent rentals payable by the municipality for certain vehicles and printers. Total monthly payments for vehicles is R 84 370 exclusive of VAT and total monthly payments for printers is R 34 585 exclusive of VAT. No contingent rent is payable.

37. Contingencies

Guarantees

Beyers Naude Local Municipality has the following guarantees:

Department of Mineral and Energy – R 60 000 at First National Bank ceded to Department of Mineral and Energy for the rehabilitation of the quarries.

Eskom - R 886 276 to be paid by First National Bank on receipt of first written demand for payment from Eskom that is due and payable by Beyers Naude Local Municipality in respect of agreement which has to be concluded between Eskom and Beyers Naude Local Municipality.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

37. Contingencies (continued)

Court proceedings

Dispute on Training: C.B. Williams - C.B. Williams instituted a claim against the municipality in the amount of R 25 567 relating to training provided. The municipality did not contract the services of C.B. Williams for the training. The outcome of the case seems to be that C.B. Williams is not proceeding with the matter.

The Wedge - The liability on the improvement to the property is currently under dispute.

Amatenda Housing Development - Housing developments for low income was done on municipal property. The developers are in liquidation and a dispute has arisen. Provision for balance of legal costs resulting from lodgement and finalisation of High Court Application for appropriate declaratory and other relief and cost resulting from insolvency interrogations initiated by the liquidators. Counsel's cost was repaid recently R 500 000 payable by BNLM in accordance with clauses 5 and 6 of Court Order (by consent) as compensation for improvements. "Value for money" principal was adhered to complied with. High Court application for declaratory relief confirming that agreement has terminated and Amatenda (in liquidation) has lost the right to develop the property and for further appropriate relief was finalised by way of Court Order (by consent) dated 26 January 2016. The said order also brought the solvency interrogations to a final end.

JunoBeach Trading 2 CC - High Court application for interim interdict pending review application. Main review application for an Order reviewing and setting aside the decision of BNLM to award tender no 34/2015 (Provision of managed printing solution) to Biztech Consultants.

Richardt van Rensburg - Richardt van Rensburg brought a High Court Application in terms of "PAIA" for an order directing BNLM to deliver documentation pertaining to a Mining Right on Erf 1814, Graaff-Reinet existing and previous lease agreement in respect of Erf 1814 and further related documents.

SALA Pension Fund ("SALA") - "SALA" delivered a Notice in terms of Section 3 of Act 40 of 2002 in respect of deceased member J.J. Adams claiming damages resulting from an alleged failure by BNLM to timeously notify "SALA" of a claim in order for them to timeously notify the underwriter.

Wanhoop - The municipality is involved in a dispute with the owner of a farm in respect of the municipality's rights to water that is sourced from the farm. The municipality's lawyers are of the opinion that the matter will only be resolved in court. If it goes to court, further costs could reach somewhere between R400 000 and R500 000. Should the municipality be successful, a reasonable portion of the costs will be payable by the owner of the farm. The matter is still pending. The Department of Water Affairs are actively involved in trying to assist the municipality in finalising the matter to ensure that the municipality can register servitudes. On the matter of litigation it seems to be quiet for the moment and the lawyers foresee that it will remain like this for the immediate future.

SAMWU, Davids and Jaer - These applications were brought against SAMWU, Davids and Jaer. The applications were dismissed by the High Court with costs. The municipality is liable for payment of all costs. The costs are expected to be approximately R 500 000.

Landfill sites - The municipality has not obtained a permit for the landfill sites in terms of Section 24G of the National Environmental Management Act. This could lead to possible penalties and fines being imposed.

SAMWU obo DRAAI & OTHERS / DR BEYERS NAUDE LOCAL MUNICIPALITY - This matter relates to 40 SAMWU members who SAMWU allege have been discriminated against by Baviaans Local Municipality on the basis that they are being paid less than various comparators. The matter has been set down for 2 days in September, and will likely proceed for a further 4 to 5 days at a future date. We expect the legal cost going forward will amount to approximately R 120 000 to finalise the arbitration proceedings.

Gerhard W Davids SALGB Case No. ECD061620 - Mr Davids, acting on behalf of the SAMWU members employed by Baviaans Local Municipality, has referred a dispute to the SALGBC requesting interpretation and application of two collective agreements. The matter has been set down for arbitration on 2 September 2016. The costs going forward are expected to be approximately R 60 000.

Former employee vs Ikwezi Local Municipality / others - The matter has not been resolved and the claim against Council is estimated at R 650 000.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

37. Contingencies (continued)

Phil-Ann Erasmus (Ex Ikwezi) - Phil Ann Erasmus obtained judgement in her favour on the merits against the Municipality and employee Mr Jack on 31 March 2016. The quantum is in dispute. Total claim on pleadings R 4 028 416, part of claim on pleadings for loss of earnings (past and future) R3 613 034 at this stage actuarial figure for same already down to R 1 250 000 (might be further reduced). General damages needs to be added costs estimate if to proceed to full 3 day trial R 257 000 plus R 100 000. Mandated to see to adjudication of quantum. Instructing suitable experts and taking other steps to limit quantum to what is fair.

Vincemus Investments (Pty) Ltd t/a Kempston Vehicle Leasing (Ex Ikwezi) - Summons received on 14 July 2017 for a total claim of R 1 298 640 for vehicle leasing and damages which is currently being investigated. Total alleged claim R 1 298 640 cost to date with further costs of R 20 000. Defended matter Plaintiff's Set Application for summary judgement down for 19 September 2017, awaiting urgent instructions in order to place defence before court by way of opposing affidavits.

Minister of Water & Sanitation - The minister of Water & Sanitation instituted action against Municipality for water use charges. The municipality cannot reconcile the alleged amounts owing. Therefore matter can be defended. Disputed claim for R 414 300 (VAT inclusive). Expected attorneys costs will be R 50 000.

MARTIN NOEL PIETERSEN / DR BEYERS NAUDE LOCAL MUNICIPALITY - Mr. Pieteresen referred an unfair dismissal labour practice and constructive dismissal dispute to the SALGBC. The arbitration has been set down for 7 September 2017, and likely to proceed on 3 days thereafter. We expect that the legal cost going forward will amount to approximately R 100 000 to finalise the proceedings.

All contingencies relating to former Baviaans and Ikwezi Local Municipalities will be transferred to the Dr Beyers Naude Local Municipality as a result of the Section 12 notice transferring all legal liability to the new merged entity.

Robert Alexander (Ex CLM) - Robert Alexander instituted action out of the GRT Magistrate Court for R 26 987 against the Municipality alleging damages resulted from a motor vehicle accident involving a motor vehicle of the Municipality driven by an employee of the Municipality. Action defended, filed plea to deny all allegations. Urgently awaiting further instructions on outcome of investigation by Municipality. Limited provision for Attorneys costs to date R6 000.

MD Business Solutions (Pty) Ltd t/a Massive Dynamix (Ex Ikwezi) - Combined summons (Case no 3326/17) received on 14 July 2017 for R 1 938 000. The matter related to previous matter in which judgement was granted against Municipality (Case3304/16). Claim of R 1 938 000 plus interest. Costs to date R 30 000 will escalate as matter is disputed / defended. Defended the matter, awaiting instructions in order to see if overlaps with judgement in Case 3304/16 and in order to advise on other possible defences / remedies.

38. Risk management

Financial risk management

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The municipality monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

38. Risk management (continued)

Further quantitative disclosures are included throughout these Annual Financial Statements.

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments:

¥ Liquidity Risk

¥ Credit Risk

¥ Market Risk

Liquidity risk

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The following table details the municipality's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the municipality anticipates that the cash flow will occur in a different period.

At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	102 705 693	-	-	-
Payables from non-exchange transactions	6 449 978	-	-	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end are noted under the respective financial assets - investments, trade and other receivables and cash and cash equivalents.

Financial assets exposed to credit risk at period end were as follows:

Financial instrument	2017
Cash and cash equivalents	38 271 395
Receivables from exchange transactions	11 298 878
Receivables from non-exchange transactions	837 067

Market risk

Market Risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

38. Risk management (continued)

Interest rate risk

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

Long-term Receivables and Other Debtors are individually evaluated annually at Reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is not exposed to credit interest rate risk as the municipality has no borrowings.

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

Foreign exchange risk

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

39. Unauthorised expenditure

More than anticipated impairment of doubtful debts	24 125 873
Overspending on operating leases	202 356
Actuarial losses not provided for in the budget	4 955 419
Greater than expected interest on creditors incurred and interest cost on employee benefits not included in budget	4 308 818
Unexpected stock losses	86 519
	<hr/>
	33 678 985

40. Fruitless and wasteful expenditure

Transferred in from merger	3 430 092
Add: Fruitless and Wasteful Expenditure - current year (Interest on overdue accounts)	1 491 677
	<hr/>
	4 921 769

No criminal or disciplinary steps have been taken as a consequence of above expenditure.

41. Irregular expenditure

Transferred in from merger	2 749 385
Add: Irregular Expenditure - current year	2 050 402
Less: Amounts condoned	-
	<hr/>
	4 799 787

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

41. Irregular expenditure (continued)

Details of irregular expenditure – current year

R 2000 to R 10 000	Various suppliers	497 329
R 10 000 to R 30 000	Various suppliers	72 847
R 30 000 to R 200 000	Various suppliers	146 876
More than R 200 000	Various suppliers	717 187
		1 434 239

42. Related parties

Relationships

Members of council
Section 57 managers

Refer to general information on page 1
MN Pietersen (Municipal Manager)
J.J. Joubert (Chief Financial Officer)
S.E. Mbotya (Acting Chief Financial Officer)
J.Z.A. Vumazonke (Director of corporate services)
W.I. Berrington (Director of Technical Services)
Description of related party relationship
Meyer Transport - Spouse
Electrical Motor Rewinders - Son
Tinnus Minnie Electrical - Spouse
Japtha Transport - Owner
RAC Transport - Spouse
Merwede Guesthouse - Owner
RGB Ithemba - Owner
Camdeboo Funeral Services - Director/Partner
Berrington Family Trust & Uitkomst Trust - Trustee
Berrington Family Trust & Uitkomst Trust - Trustee
Welkom Yizani - Shareholder

Name of related person and designation
Hendrina Meyer - Program Operator
Clive Warner - Assistant manager
Maryna Minnie - Senior Clerk Administration
Ivan Japtha - Law Enforcement Officer
Logan Cudjoe - Accountant Expenditure
Marie Fichet - Senior Administration
Rory Boggenpoel - Manager Assets and SCM
Hildegard Wessels - HR Officer: Recruitment
Ivor Berrington - Director: Technical Services
Melanie Berrington - Administration Officer
Colin Abels - Health Practitioner

Key management and councillors receive and pay for services on the same terms and conditions as other rate payers / residents.

Section 57 managers

No remuneration was paid to family of Section 57 managers. Refer to note 24 for remuneration paid to section 57 managers during the year.

Members of Council

No remuneration was paid to family of members of council. Refer to note 25 for remuneration paid to members of Council during the year.

All councillors and employees have disclosed their interest in related parties and no one has the ability to control or exercise significant influence over Council in making financial and operating decisions.

Related party transactions

Purchases from related parties

Electrical Motor Rewinders	410 250
Zaaymans Garage	31 776
Vivians Enterprise	4 900

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

42. Related parties (continued)

Remuneration of management

Members of council

2017

Name	Fees for services as a member of management	Councillors' allowance	Other allowances and benefits	Total
CLlr D De Vos (Mayor)	-	663 399	27 153	690 552
CLlr T Nonnies (Speaker)	-	366 707	227 508	594 215
CLlr P Koeberg (Executive committee member)	-	193 538	107 531	301 069
CLlr N Vanda (Executive committee member)	-	263 960	37 506	301 466
CLlr E Loock (Executive committee member)	-	272 013	39 446	311 459
CLlr S Graham (Executive committee member)	-	305 278	29 717	334 995
CLlr K Hoffman	-	189 389	44 321	233 710
CLlr P Bees	-	188 985	45 111	234 096
CLlr X Galada	-	171 636	62 239	233 875
CLlr L Langeveldt	-	211 726	22 636	234 362
CLlr J Williams	-	197 957	36 002	233 959
CLlr A Arries	-	186 325	47 848	234 173
CLlr B Seekoei	-	213 357	22 652	236 009
CLlr E Rossouw	-	191 042	43 033	234 075
CLlr D Bezuidenhoudt	-	218 977	22 708	241 685
CLlr R Jacobs	-	211 726	22 636	234 362
CLlr L Botha	-	211 726	22 636	234 362
CLlr T Tshona	-	211 726	22 636	234 362
CLlr W Safers	-	230 587	59 816	290 403
CLlr H Booysen	-	218 977	22 708	241 685
CLlr E Carolus	-	182 688	51 187	233 875
CLlr A Mboneni	-	213 758	-	213 758
CLlr W Le Grange	-	211 726	-	211 726
CLlr D Williams	-	211 726	-	211 726
CLlr A Booysen	-	123 623	-	123 623
CLlr G Mackelina	-	202 218	-	202 218
CLlr E Ruiters	-	202 218	-	202 218

Executive management

2017

Name	Salary and acting allowances	Contributions to UIF, Medical and Pension Funds	Allowances	Total
MN Pietersen (Municipal Manager)	1 074 943	12 561	134 056	1 221 560
J.J. Joubert (Chief Financial Officer)	314 889	5 724	210 028	530 641
SB Mbotya (Acting Chief Financial Officer)	480 494	61 756	2 400	544 650
JZA Vumazonke (Director of corporate services)	917 644	12 113	145 200	1 074 957
WI Berrington (Director of Technical Services)	1 050 842	117 425	129 327	1 297 594

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

43. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Various items were procured during the financial period under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1) as stated above. The reasons for these deviations were documented and reported to the Accounting Officer who considered them and subsequently approved the deviation from the normal supply chain management regulations. These deviations have also been reported to Council.

The reasons for the deviations were mainly due to emergency cases, sole/single suppliers and impracticality in following the official procurement processes.

44. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Council subscriptions	5 276 180
Amount paid - current year	(815 716)
Amount paid - previous years	(27 452)
	<hr/>
	4 433 012

Audit fees

Balance transferred from merger	6 556 433
Current year audit fee	16 947 845
Amount paid - current year	(1 086 703)
	<hr/>
	22 417 575

PAYE and UIF

Current year payroll deductions and council contributions	14 091 693
Amount paid - current year	(14 091 693)
	<hr/>
	-

Pension and Medical Aid Deductions

Current year payroll deductions and council contributions	24 285 564
Amount paid - current year	(24 285 564)
	<hr/>
	-

VAT

VAT payable	<hr/>
	590 692

The municipality is on the payment basis for VAT and submit monthly returns.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

44. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding at 30 June 2017:

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor G.C. Mackelina	521	531	1 052
Councillor A. Booysen	-	12 331	12 331
Councillor T.L. Nonnies	138	67	205
Councillor B.W. Seekoei	417	649	1 066
Councillor P. Bees	74	-	74
Councillor H. Booysen	823	450	1 273
Councillor E.V.R. Rossouw	362	799	1 161
Councillor D.J. Bezuidenhout	4 931	9 962	14 893
	7 266	24 789	32 055

45. Distribution losses

Electricity losses (units)

Electricity units (kWh) purchased from Eskom

70 957 000

Electricity units (kWh) sold to consumers

(58 245 359)

12 711 641

Electricity Losses occur due to inter alia, technical and non-technical losses (Technical losses - inherent resistance of conductors, transformers and other electrical equipment; Non-technical losses - the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal electricity connections). The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported. Electricity losses for the financial year is 17.92% of purchased electricity. The Rand value of the electricity losses for the period ending 30 June 2017 is R 8 561 124.

Water losses (units)

Balance at the beginning of the year in reservoirs and pipes

33 237

Water units produced

5 092 402

Water units sold

(4 014 501)

Balance at the end of the year in reservoirs and pipes

(38 398)

1 072 740

Water Losses occur due to inter alia, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repairs as soon as they are reported. Water losses for the financial year is 21/07% of produced water. The Rand value of the electricity losses for the period ending 30 June 2017 is R 6 162 396.

46. Events after the reporting date

No material fact or circumstance has occurred between the accounting date and the date of the financial statements other than those items already mentioned which required disclosure in the annual financial statements.

47. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Dr Beyers Naude Local Municipality

(Registration number EC 101)

Annual Financial Statements for the period ended 30 June 2017

Notes to the Annual Financial Statements

47. Going concern (continued)

Material uncertainties regarding the going concern assumption exist due to the following:

¥ Long outstanding receivables that are considered irrecoverable.

¥ The municipality is in a net current liability position which indicates that the municipality is not liquid.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality from national and provincial government.